

Paper 1 – Fundamentals of Economics and Management

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Paper 1 – Fundamentals of Economics and Management

Full Marks : 100

Time allowed: 3 hours

The figures in the margin on the right side indicate full marks.
This question paper has two sections.
Both the sections are to be answered subject to instructions given against each.

Section – A : (Fundamentals of Economics)

(I) Choose the correct answer from the given four alternatives: [1×20=20]

- (i) Micro Economics theory deals with
 - (a) Economy as a whole
 - (b) Individual units
 - (c) Economic growth
 - (d) All the above

- (ii) Who was the father of Economics?
 - (a) Marshall
 - (b) Adam Smith
 - (c) Robbins
 - (d) Keynes

- (iii) If an economy is working at the point left to PPF curve that shows _____
 - (a) Full employment
 - (b) Unemployment
 - (c) Excess production
 - (d) None of the above

- (iv) Point elasticity was propounded by
 - (a) Adam Smith
 - (b) Marshall
 - (c) Robbins
 - (d) Keynes

- (v) Luxury goods have _____ degree of elasticity.
 - (a) High
 - (b) Low
 - (c) Moderate
 - (d) None

- (vi) Price elasticity demand of product will be more, if it
 - (a) Has no substitutes
 - (b) Has a number of substitutes
 - (c) Is an item of necessity
 - (d) Is a life saving product

- (vii) An increase in price will result in an increase in total revenue if
 - (a) Percentage change in quantity demanded is greater than the percentage change in price
 - (b) Percentage change in quantity demanded is less than the percentage change in price
 - (c) Percentage change in quantity demanded is equal to the percentage change in price
 - (d) None of the above

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- (viii) Returns to a variable factor operates in _____
- (a) Short run
 - (b) Long run
 - (c) either 'a' or 'b'
 - (d) neither 'a' nor 'b'
- (ix) All factors of production become variable in _____ .
- (a) Medium run
 - (b) Short run
 - (c) Long run
 - (d) None of the above
- (x) Which of these will have highly inelastic supply
- (a) Perishable goods
 - (b) Consumer durables goods
 - (c) Item of elite class consumption
 - (d) All the three
- (xi) Why does the Law of Increasing Returns operate?
- (a) Full use of fixed indivisible factors
 - (b) Efficiency of variable factors
 - (c) Need to reach the right combination
 - (d) All the above
- (xii) Which of the following is/are the essential features of the market?
- (a) Buyers
 - (b) Sellers
 - (c) Price
 - (d) All the above
- (xiii) In the long run price is governed by _____ .
- (a) Cost of production
 - (b) Demand- Supply forces
 - (c) Marginal utility
 - (d) None of the above
- (xiv) What is the maximum point of TP?
- (a) When AP become zero
 - (b) When MP become zero
 - (c) At the intersecting point of AP & MP
 - (d) None of these
- (xv) Optional money is a
- (a) Legal tender money
 - (b) Non-legal tender money
 - (c) Limited legal tender money
 - (d) Full bodied money
- (xvi) Financial markets are classified into Money Market and _____.
- (a) Bullion Market
 - (b) Capital Market
 - (c) Stock Market
 - (d) National Market
- (xvii) Which of these is near money?
- (a) Bills of exchange
 - (b) Savings Bond
 - (c) Gilt edged securities
 - (d) All of these

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(xviii) Which is the apex bank for agricultural credit in India

- (a) RBI
- (b) SIDBI
- (c) NABARD
- (d) IDBI

(xix) _____ account can be opened by businessmen

- (a) Current
- (b) Fixed Deposit
- (c) Recurring Deposit
- (d) Time Deposit

(xx) Commercial Paper was introduced in Indian Money market in January

- (a) 1990
- (b) 1980
- (c) 1970
- (d) 1960

Answer:

(I)

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
b	b	b	b	a	b	b	a	c	a
(xi)	(xii)	(xiii)	(xiv)	(xv)	(xvi)	(xvii)	(xviii)	(xix)	(xx)
d	d	a	a	b	b	d	c		

(II) Match the terms in Column I with the relevant terms in Column II

[1×5=5]

Column A	Column B
(1) Commercial Banks	(A) Monopoly
(2) Deflation	(B) Average Fixed Cost
(3) One firm	(C) Discounting Bills
(4) land	(D) Loss of Borrowers
(5) AC - AVC	(E) Fixed Factor

Answer:

(II) Match the terms in Column I with the relevant terms in Column II

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Column A	Column B
(1) Commercial Banks	(C) Discounting Bills
(2) Deflation	(D) Loss of Borrowers
(3) One firm	(A) Monopoly
(4) land	(E) Fixed Factor
(5) AC - AVC	(B) Average Fixed Cost

(III) State whether the following statements are True/False?

[1×5=5]

- (i) In perfect market $AR > MR$ ()
- (ii) When TP is maximum, then AP is zero ()
- (iii) PPC is also called PPF ()
- (iv) Collateral loans are given by Commercial Banks without security ()
- (v) Money is treated as means of trade and commerce ()

Answer:

(III)

(i)	(ii)	(iii)	(iv)	(v)
F	F	T	F	T

(IV) Answer any four of the following questions.

[4×5=20]

- (1) State the determinants of demand.
- (2) State the causes for falling nature of demand curve.
- (3) What do you understand by the term 'labour'? State its features.
- (4) What are the features of Perfect Competition?
- (5) Explain the function of commercial Bank.
- (6) Fisher's quantity theory of money has a few criticisms. State them.

Answer:

(IV) (1) **Determinants of demand:**

The demand for any commodity is depend upon so many factors. These factors are called determinants of demand. They are:

1. **Price of the goods:** The demand for any commodity firstly depends upon its price. When the price rises demand decreases, when the prices falls demand increases.
2. **Prices of the substitute goods:** The demand for any commodity not only depends upon its price but also the prices of its substitute goods. For example, tea and coffee. Here the demand for tea depends upon price of the coffee.
3. **Prices of the complementary goods:** The demand for a commodity also depends upon the price of its complementary goods. For example, car and petrol. Here demand for petrol depends upon price of the car.
4. **Income of the consumer:** The income of the consumer also influences the demand for a commodity. When the income rises people purchase the more quantity of goods. When the income falls they purchase less quantity of goods.
5. **Tastes and preferences of the consumer:** The tastes and preference of the consumer can also determine the demand for a commodity. When the tastes are changed, the demand for goods also changed.
6. **Population:** When the population is increased, the demand for goods also increases. When the population decreases demand also decreases.
7. **Climate:** The climatic conditions also can influence the demand. In hot climatic conditions cool drinks are demanded. In rainy season umbrellas are demanded.

(2) **Causes for falling nature of Demand Curve:**

There are many reasons for the falling nature of demand curve. Some of the reasons are explained as follows:

(a) **Law of diminishing marginal utility:**

According to law of diminishing marginal utility when the quantity of goods is more the marginal utility of the commodity will be less. So the consumer demands more goods when the price is less. That is why, the demand curve slopes downwards from left to right.

(b) **Substitution effect:**

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In the case of substitutes if the price of commodity 'x' rises relatively to the other good 'y' the consumer will buy less of commodity 'x' and buy more of the good 'y' which has become relatively cheaper. This is called substitution effect. So the demand curve slopes downward.

(c) Income effect:

The income effect tells that the real income of the consumer rises due to the fall in the price level. So they purchase more and more goods when the price falls. This is said to be the income effect.

(d) New buyers:

When the price of a commodity decreases the new consumers are attracted to that commodity because when the price level falls it becomes cheaper good than before. So the demand will rise with the price falls.

(e) Old buyers:

When the price of anything decreases the old buyers purchase more goods than before. So the demand will be increased. That is why, the demand curve slopes downward from left to right.

(3) Labour:

In the ordinary usage, labour stands for only physical labour. In economics, labour means physical as well as mental services engaged in production to earn income. Classical economists and Karl Marx have considered labour as the sole factor of production.

Features of Labour: Labour as a factor of production possesses certain peculiar features:

(a) Labour is inseparable:

Labour is inseparable from labourer but in the case of other factors i.e. land and capital are separable from land lord and capitalist.

(b) Labour is perishable:

If a worker does not find work on a particular day, the labour is lost for that day. Like other factors of production, labour cannot be preserved.

(c) Supply of labour:

Labourers offer more labour at lower wages. When wages rise beyond a certain level they prefer to enjoy leisure and supply less labour. It is observed that supply curve of labour is backward bending at higher wages.

(d) Weak-bargaining power:

Labour has less bargaining power as it is a perishable thing. In the same way the trade unions are not strengthened so they cannot fight for better wages.

(e) Differ in efficiency of labour:

Some labourers have more efficiency and some labourers have less efficiency.

(4) Features of Perfect Competition:

The perfect competition market has the following features:

(a) Large number of sellers and buyers:

There will be a large number of sellers and buyers for a good in this market. It means the output of a buyer or a seller is a small part of the total output. A single producer or seller cannot change the price by his actions. None of them is large enough to

influence the price. Therefore a seller takes the price decided by the market. The producer is a price taker.

(b) Homogeneous Commodities:

Products in this market are similar in every aspect. A consumer gets the same good whenever he purchases. As a result there will be one price all over the market.

(c) Free entry and exit:

Any firm can enter into the production as per its desire. Finally it can leave the production at any time. This helps new firms to enter into business when conditions are favourable. As long as a firm earns super normal profits, it usually stays in competition. But when the firm ends up with losses, it would leave the market.

(d) Mobility of factors of production:

Factors of production will move from one production to another easily. This is also useful for free entry and exit of firms factors (land, labour, capital) move to the production activities where they get higher incomes.

(e) Absence of transport cost:

Under perfect market transport costs should not be added in the price. If transport costs are added the goods are available at the fewer prices at the near markets and they are available at the higher prices at distant markets. Existing of two prices for the same thing in different parts is against for perfect market. So transport cost should not be added.

(f) Perfect knowledge of market:

Buyers and sellers in this market will have a clear knowledge about market conditions. So that there will be one price throughout the market. Because of perfect knowledge, sales and purchases of commodities take place as one price.

(5) Commercial Banks play a very prominent role in the financial system of an economy.

They perform a variety of functions as discussed below:

- 1. Acceptance of deposits:** One of the primary functions of a commercial bank is to accept deposits from the public.
- 2. Payment of loans and advances:** Another primary function of the commercial bank is to give loans and advances to different sections of the public like traders, industrialists, farmers, artisans etc.
- 3. Creation of credit:** the commercial banks create credit. This is a unique function of commercial banks. Credit is created from out of the primary deposits of money the customers received from the public. Part of the total amount of these deposits is given as loans and advances to its customers.
- 4. Agency functions:** Commercial banks perform certain agency functions also:
 - (a)** Collection of cheques, drafts, bills of exchange etc. of their customers from other banks.
 - (b)** Collection of dividends and interest from business and industrial firms.
- 5. General Utility Functions:** Besides the above agency functions, the commercial banks provide certain general utility services to their customers.
 - (a)** Provide locker facility for the safe custody of the silver, gold ornaments, important and valuable documents.
 - (b)** Transfer money of the customers from one bank to the other by way of demand drafts, mail transfer.

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(6) Fisher's quantity theory of money is criticised on the following grounds:

- (a) Fisher's equation is abstract and mathematical truism. It does not explain the process by which M affects P.
- (b) It is presumed that entire M is used up in buying T instantly. It is unreal. No one spends all money the moment he earns it.
- (c) The concept full employment is myth. There is natural rate of unemployment in every country.
- (d) Even with full employment, a country can rise national output by bringing those factors which are not available within economy from abroad.
- (e) It is presumed that money is used for transactions only. Hence the theory is often referred to as cash transaction theory. This ignores the other roles of money.

Section – B : (Management)

(I) Choose the correct answer from the given four alternatives:

[1×20=20]

- (i) **The message to be transmitted through verbal medium may be**
 - (a) Orders
 - (b) Instructions
 - (c) Reports
 - (d) All of the above
- (ii) **Which one is not a barrier to communication?**
 - (a) Filtering
 - (b) Emotions
 - (c) Message
 - (d) Language
- (iii) **Feedback may be**
 - (a) Direct
 - (b) Indirect
 - (c) Either 'a' or 'b'
 - (d) None of the above
- (iv) **Formal communication is always**
 - (a) Written
 - (b) Oral
 - (c) Both 'a' and 'b'
 - (d) None of the above
- (v) **_____ is concerned with providing the organization with the right number of people, at the right place and at the right time so that the organization would be able to achieve its goals effectively.**
 - (a) Recruitment
 - (b) Staffing
 - (c) Selection
 - (d) Development
- (vi) **Which one of the following is the principle of direction?**
 - (a) Harmony of objectives
 - (b) Unity of command
 - (c) Follow-up
 - (d) All of the above

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- (vii) _____ is aimed at maintaining harmony among employees and groups in an organisation
- (a) Direction
 - (b) Supervision
 - (c) Planning
 - (d) Control
- (viii) T-group training is also known as
- (a) Classroom training
 - (b) Apprenticeship Training
 - (c) Internship training
 - (d) Sensitivity training
- (ix) The process of communication starts with _____
- (a) Supervisor
 - (b) Sender
 - (c) Receiver
 - (d) Medium
- (x) CPC
- (a) Critical path control
 - (b) Critical point control
 - (c) Critical point complaint
 - (d) Critical point complex
- (xi) _____ skills are related to the problem identification and prescribing appropriate solution.
- (a) Decision making skills
 - (b) Interpersonal skills
 - (c) Operative skills
 - (d) All of the above
- (xii) _____ refers to the introduction of a person to the job and the organization.
- (a) Induction
 - (b) Introduction
 - (c) Orientation
 - (d) Placement
- (xiii) _____ is the primary force within the organization which tends to lead it towards achievement of goals.
- (a) Decentralisation
 - (b) Management
 - (c) Centralisation
 - (d) Delegation of authority
- (xiv) The first step in the organizing process is _____
- (a) Division of work
 - (b) Grouping of work
 - (c) Identifying the work
 - (d) Establishing formal reporting relationships
- (xv) Post control is also known as _____
- (a) Feedback control
 - (b) Concurrent Control
 - (c) Pre-control
 - (d) Fast forward control

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- (xvi) Control function is closely connected to _____
 (a) Planning
 (b) Organising
 (c) Coordination
 (d) All of the above
- (xvii) Tactical decisions are also known as
 (a) Operational Decisions
 (b) Programmed decision
 (c) Non-programmed decision
 (d) Strategic Decision
- (xviii) _____ represents the numerical limit of subordinates to be supervised and controlled by a single supervisor.
 (a) Unity of command
 (b) Unity of objectives
 (c) Span of control
 (d) Scalar Chain
- (xix) The sequential set of steps in decision making is
 (a) Identification – Evaluation – Developing – Selection – Implementation
 (b) Identification –Developing – Evaluation – Implementation – Selection
 (c) Identification –Developing – Evaluation – Selection – Implementation
 (d) None of the above
- (xx) Assignment of duties is meaningless unless adequate authority is given to _____.
 (a) Subordinates
 (b) Peers
 (c) Superiors
 (d) All of the above

Answer:

(I)

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
d	c	c	a	b	d	a	d	b	b
(xi)	(xii)	(xiii)	(xiv)	(xv)	(xvi)	(xvii)	(xviii)	(xix)	(xx)
a	a	b	c	a	a	a	c	c	a

(II) Match the terms in Column I with the relevant terms in Column II [1×5=5]

Column A	Column B
(1) External source	(A) Rigid rules and regulations
(2) Strategies	(B) Oral Communication
(3) Bureaucratic Management	(C) Standing Plans
(4) Group Discussions	(D) Investment Plans
(5) Controllable premises	(E) Employment Exchange

Answer:

(II) Match the terms in Column I with the relevant terms in Column II [1×5=5]

Column A	Column B
(1) External source	(E) Employment Exchange
(2) Strategies	(C) Standing Plans
(3) Bureaucratic Management	(A) Rigid rules and regulations
(4) Group Discussions	(B) Oral Communication
(5) Controllable premises	(D) Investment Plans

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(III) State whether the following statements are True/False?

[1×5=5]

- (i) The art of influencing others to direct their will, abilities and efforts to the achievements of goals is called leadership ()
- (ii) Work is natural like rest or play according to theory X ()
- (iii) Responsibility flows downwards ()
- (iv) Division of work is necessary to enjoy the benefits of specialization ()
- (v) Apprenticeship training is best example for off the job training ()

Answer:

(III)

(i)	(ii)	(iii)	(iv)	(v)
T	F	F	T	F

(IV) Answer any four of the following questions.

[4×5=20]

- (1) Briefly explain the steps involved in planning process.
- (2) Write a note on 'Span of Management'.
- (3) Discuss the principles of Co-ordination.
- (4) Explain the importance of communication.
- (5) Which are the areas that would draw your attention as an Auditor while you are conducting management Audit?
- (6) What are the grounds on which Maslow's need hierarchy theory is criticized?

Answer:

(IV) (1) The process of planning consists of a series of interrelated steps which varies depending on the size and complexity of the organization. The basic steps involved in the process of planning are –

1. **Analysis of opportunities** – Planning starts with analysis of opportunities in the external environment as well as within the organization. Goals can be set only when a proper scanning of the environment, that reveals the opportunities that exist.
2. **Establishing Objectives** – The next step in planning process involves establishing objectives for the whole organization, and for the different departments. Organisational objectives provide direction to the major plans
3. **Determining planning Premises** – Planning premises refer to the environment in which the plans are to be implemented. The task of determining premises should only be continued to those aspects that are critical to the plan.
4. **Identifying alternatives** – Different feasible alternatives need to be identified in order to achieve a particular objective, since there may be multifarious ways in which a particular goal can be accomplished.
5. **Evaluation of alternatives** – Alternatives need to be evaluated in the light of goals. Those are set, and objectives to be achieved considering the various constraints and uncertainties that exist.

6. **Selection of the best alternative** – The choice of the best alternative, i.e. the selection of the most appropriate course of action. Sometimes two or more contingency plans are kept as a backup considering the unpredictability of the future.
7. **Implementing the plan** – Implementation or execution entails putting the plan into action. Managers need to consider a series of important decisions during implementation of the actions stated in the plan.
8. **Reviewing the Plan** – Reviewing the plan helps managers to evaluate the effectiveness of the plan. A system of thorough review and scrutiny can help in detecting deviations from the set plans and remedial measures can be taken accordingly.

(2) Span of Management

Span of Management also known as span of control, span of supervision or span of authority represents the numerical limit of subordinates to be supervised and controlled by a single supervisor. It is an important principle of building a sound organization. The principle is based on the theory of relationships propounded by Graicunas – a French management consultant who analysed the superior – subordinate relationship based on a mathematical formula. No. of direct relationships = n No. of cross relationships = $n(n-1)$ No. of group relationships = $n[2n - 1 - 1]$ Total No. of relationships = $n[2n/2 + (n-1)]$ Where n represents the number of subordinates. The concept of span of management is central to the classical organization theory. Proper span of management is considered a necessity for effective supervision, co-ordination and control. It is therefore critical to determine the ideal span. If the span of control is narrow, there will be more organizational levels which in turn may impede communication. If the span is widened, the supervisory load may become too heavy. Thus, sound organization structure requires striking an optimum balance between organization levels, and supervisory work load.

(3) Principles for achieving effective coordination can be enumerated as below:

1. **Principle of Early Stage** - According to this principle, coordination must start at an early stage in the management process. It must start during the planning stage. This will result in making the best plans and implementing these plans with success.
2. **Principle of Continuity** - According to this principle, coordination must be a continuous process. It must not be a one-time activity. The process of coordination must begin when the organization starts, and it must continue until the organisation exists.
3. **Principle of Direct Contact** - According to this principle, all managers must have a Direct Contact with their subordinates. This will result in good relations between the manager and their subordinates. This is because direct contact helps to avoid misunderstandings, misinterpretations and disputes between managers and subordinates.
4. **Principle of Reciprocal Relations** - The decisions and actions of all the people (i.e. of all managers and employees) and departments of the organisation are inter-related. So, the decisions and actions of one person or department will affect all other persons and departments in the organisation. Therefore, before taking any decision or action all managers must first find out the effect of that decision or action on other persons and departments in the organisation. This is called the Principle of Reciprocal Relations. Co-ordination will be successful only if this principle is followed properly.

5. **Principle of Effective Communication** - Co-ordination will be successful only in the presence of an effective communication. Good communication must be present between all departments, within employees themselves and even between managers and their subordinates.
6. **Principle of Clarity of Objectives** - Co-ordination will be successful only if the organisation has set its clear objectives. Everyone in the organisation must know the objectives very clearly. No one must have any doubts about the objectives of the organisation. Clear objectives can be achieved easily and quickly.

(4) **Importance of Communication**

Communication is very important because it is a process by which the managerial functions of planning, organising, directing and controlling are accomplished. Without formal system of communication it is not possible for an organisation to exist. Secondly, communication is an activity to which the manager devotes an overwhelming proportion of his precious time. The importance of communication in organisations is summed up by Keith Davis in the following words: "Just as a man gets arteriosclerosis, a hardening of the arteries which impairs his efficiency, so an may organisation get info sclerosis, a hardening of the communication arteries, which produces similar impaired efficiency".

Communication is important because;

- In organisations, communication ties people and structure together.
- Communication is a bridge of meaning between two or more people.
- Communication involves understanding and acceptance of ideas to act in it.
- Effective communication is a substance of good management; communication is not a substitute for good management.

5. The term 'Management Audit' is defined as a systematic evaluation of the functioning, performance and effectiveness of management of an organisation. It is thus an independent appraisal of an organization's management by an outside firm.

A few major areas of management audit are as follows:

- (i) Formulation of organisational objectives, strategies, policies and programmes of action and the manner in which they are pursued, as also the extent of success achieved.
- (ii) Design and operation of organisational structures of roles, activities and relationships.
- (iii) The manner and efficiency with which resources and assets are mobilised, developed, allocated, utilised and safeguarded, including the human resources.
- (iv) Design and functioning of various systems and operations within the organisation.
- (v) The manner in which the management team anticipates and sizes up external environmental elements and designs appropriate adaptive strategies to cope with them.
- (vi) The internal organisational climate - to what extent it is conducive for co-operation, harmony, creativity, productivity and satisfaction.
- (vii) The quality of managerial decisions;: their soundness, timeliness and effectiveness.

6. Maslow's need hierarchy theory is widely criticised for the following reasons:
- (i) Needs are not the only determinant of behaviour. People seek objects and engage in behaviour that is in no way connected with the gratification of needs. There are other motivating factors like perceptions, expectations, experiences, etc.
 - (ii) The theory gives an over simplification of human needs and motivation .Need recognition and fulfillment do not always follow the specific sequence of hierarchy suggested by Maslow, Need classification is somewhat artificial and arbitrary as human needs cannot be classified into neat watertight compartments. Therefore, the theory may not have universal validity.
 - (iii) The hierarchy of needs is not always fixed. Different people may have different orders. For example, in case of creative people like singers, painters, etc., self-actualisation need may become a dominant motivating force even before the lower order needs are satisfied. Similarly, the need priorities of the same individual may change over time. As a result, a manager cannot keep up with a continuously revolving set of needs. Thus, Maslow's model presents a somewhat static picture of need structure. The theory does not recognise individual differences. Individuals differ in the relative intensity of their different needs.
 - (iv) Maslow's theory is based on a relatively small sample. It is a clinically derived theory and its unit of analysis is the individual. That is why Maslow presented his model with apologies to those who insisted on conventional reliability, validity, sampling, etc.
 - (v) There is no definite evidence that once a need is satisfied it loses its motivating force. It is also doubtful that satisfaction of one need automatically activates the next need in the hierarchy.
 - (vi) Some persons will not aspire after their lower-order needs have been satisfied. Human behaviour is the outcome of several needs acting simultaneously.

The same need may not lead to the same response in all individuals. Similarly, one particular behavior may be the result of different needs. There is lack of direct cause and effect relationship between need and behaviour.